List of Submissions to ED 176 *Proposed Amendments to Australian Accounting Standards – Borrowing Costs of Not-for-Profit Public Sector Entities*

1	PricewaterhouseCoopers
2.	Australasian Council of Auditors-General
3	HoTARAC
4	David Maxwell
5.	Representatives of the Australian Accounting Profession (CPA Australia, The Institute of Chartered Accountants in Australia and National Institute of Accountants
6	Ernst & Young

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Bruce Porter
Acting Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

27 March 2009

Dear Bruce

Exposure Draft ED 176 *Proposed Amendments to Australian Accounting Standards – Borrowing Costs of Not-for-Profit Public Sector Entities*

We write in response to the request for comments contained in the February 2009 Australian Accounting Standards Board (AASB) Exposure Draft 176 *Proposed Amendments to Australian Accounting Standards – Borrowing Costs of Not-for-Profit Public Sector Entities*.

We support the Board's decision to delay mandatory capitalisation of borrowing costs for not-for-profit public sector entities. While we believe that departures from International Financial Reporting Standards should be kept to an absolute minimum, we consider it appropriate for the Board's final decision to be informed by the work of the FRSB on depreciated replacement cost and for the option to expense borrowing costs to be retained pending completion of the FRSB's work.

Furthermore, we urge the Board to proceed with the proposed changes as a matter of priority to avoid any implementation issues for 30 June 2009 financial reports or budgets for the 30 June 2010 financial year.

We would welcome the opportunity to discuss our views at your convenience. Please contact me on (03) 8603 3868 if you would like to discuss this further.

Yours sincerely

Jan McCahey

Jan McCahey
Partner
Assurance

AUSTRALASIAN
COUNCIL OF
AUDITORS-GENERAL

1 April 2009

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007
AUSTRALIA

Dear Chairman

EXPOSURE DRAFT 176: PROPOSED AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – BORROWING COSTS OF NOT-FOR-PROFIT PUBLIC SECTOR ENTITIES

Attached is the Australasian Council of Auditors-General (ACAG) response to the Exposure Draft referred to above.

The views expressed in this submission represent those of all Australian members of ACAG.

The members of ACAG support the proposed Accounting Standard.

The opportunity to comment is appreciated and I trust you will find the attached comments useful.

Yours sincerely

Simon O'Neill
Chairman
ACAG Financial Reporting and Auditing Committee

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Exposure Draft 176: Proposed Amendments to Australian Accounting Standards – Borrowing Costs of Not-For-Profit Public Sector Entities

ACAG has reviewed the exposure draft and respond to the following specific matters for comment.

Is the proposal to reintroduce the option for not-for-profit public sector entities to expense borrowing costs appropriate?

We are of the view that it is appropriate for the proposal to reintroduce the option to expense borrowing costs for not-for-profit public sector entities and therefore agree with the Board's proposed exposure draft in this respect.

Expensing borrowing costs as incurred is also consistent with the requirements of AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, facilitating the harmonisation of GAAP and GFS.

We are doubtful whether capitalisation of borrowing costs is likely to result in information that is meaningful to users of the financial statements of public sector entities and are of the opinion that allowing the option to expense borrowing costs as incurred will improve the relevance of that information.

In addition, we are unclear about the effect of initial capitalisation of borrowing costs on subsequent revaluation of qualifying assets using depreciated replacement cost. We are not aware of any valuation guidance about how to incorporate borrowing costs in a depreciated replacement cost valuation, therefore we are concerned about the range of valuation practices that could emerge and the resulting adverse impact on the reliability of the information provided. We note that this issue remains for for-profit public sector agencies, and that there will also be consolidation adjustments required for whole of government financial reports to expense any capitalised borrowing costs of for-profit public sector agencies.

Further, there are higher costs involved in capitalising borrowing costs compared to expensing those costs, particularly where funds are borrowed for general purposes rather than for a specific qualifying asset. In such cases, there will need to be some analysis and allocation of the amount to be capitalised. This is especially common in the public sector.

Given that we do not see any benefit for entities being required to capitalise borrowing costs, expensing these costs is the preferred option.

Should the option also be reintroduced for not-for-profit private sector entities?

Based on the same reasons above, we are of the view that the option to expense borrowing costs should also be reintroduced for not-for-profit private sector entities.

Overall, would the proposals result in financial statements that would be useful to users?

We are of the view that the proposals would result in financial statements that would be useful to users.

Are the proposals in the best interests of the Australian economy?

In our view, the proposals in Exposure Draft 176 would be in the best interests of the Australian economy.

Department of Treasury and Finance

Tasmania

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Mr Bruce Porter
Acting Chairman
Australian Accounting Standards Board
PO Box 204
Collins St West
MELBOURNE Vic 8007

Dear ~~Mr Porter~~ Bruce

EXPOSURE DRAFT 176 PROPOSED AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS - BORROWING COSTS OF NOT-FOR-PROFIT PUBLIC SECTOR ENTITIES

The Heads of Treasuries Accounting and Reporting Advisory Committee welcomes the opportunity to provide comments to the Australian Accounting Standards Board on Exposure Draft 176 *Proposed Amendments to Australian Accounting Standards – Borrowing Costs of Not-For-Profit Public Sector Entities*.

HoTARAC is supportive of the proposed amendments to AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, AASB 111 *Construction Contracts* and AASB 123 *Borrowing Costs*.

HoTARAC strongly supports reintroducing the option for not-for-profit public sector entities to expense borrowing costs. HoTARAC re-iterates its comments on the International Public Sector Accounting Standards Board's Exposure Draft 35 *Proposed International Public Sector Accounting Standard – IPSAS 5 Borrowing Costs (Revised 200X)* that the option to expense is crucial to accurately reflect the substance of borrowing costs in public sector not-for-profit entities. HoTARAC considers that the proposals will result in financial statements that are more useful to users.

HoTARAC has no comment with regards to whether the option should be extended to not-for-profit private sector entities. However, some HoTARAC jurisdictions believe that the option to expense borrowing costs should be extended to for-profit public sector entities. This is because these entities:

- face similar issues regarding the revaluation model and depreciated replacement cost; and
- are consolidated as part of the whole-of-government, where consistent policies are required to be adopted.

HoTARAC commends the AASB in regard to the application date, which enables not-for-profit public sector entities, that choose the option to expense borrowing costs under AASB 123, to continue to apply that option without interruption ensuring consistency in accounting policy.

HoTARAC is of the view that the proposals are in the best interest of the Australian economy because they improve transparency of government finances and allow easier calculations of key performance indicators for governments.

If you have any queries regarding HoTARAC's comments, please contact Peter Gibson from the Australian Department of Finance and Deregulation on 02 6215 3551.

Yours sincerely

D W Challen
CHAIR
HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE

31 March 2009

Contact: David Tadd
Phone: 03 6233 2516
Our Ref: D/14423 TG/DT

ED 176 sub 4

From: David Maxwell [mailto:davemax@ozemail.com.au]
Sent: Monday, 9 March 2009 11:55 AM
To: Robert Keys
Subject: ED 176 - Borrowing Costs for not-for-profits

Robert,

As you know, I am the contractor responsible to the SA Local Government Association for the drafting of the Model Statements and guidelines for use by SA Councils. As such, I have the responsibility for interpreting the accounting standards and providing practical guidance on their application by SA Councils.

In relation to AASB 123, the guidance inserted on the capitalisation of interest is as follows:
"To determine the amount of interest to be capitalised as part of the cost of a qualifying asset:

1. Calculate the weighted average interest rate of all Council's borrowings at the commencement of period under review (or the commencement of construction).

2. Apply that interest rate to the average project cost of the qualifying asset (i.e. opening balance + closing balance divided by two). If the project cost includes interest previously capitalised, then that forms part of the project cost on which subsequent interest is calculated.

The calculation is made at least annually, but may be done more frequently if desired."

I feel that this results in substantial compliance with the existing standard, yet is a sufficiently simple procedure to be reliably followed by the often under-skilled staff in small, remote Councils. There is also the fact that the scale of projects undertaken by Councils is very much smaller than by other levels of government.

Accordingly, I doubt that the impact of capitalising - or not capitalising - will be significant in the local governemnt area.

Cheers,

David

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6 April 2009

ED 176 sub 5

Mr Bruce Porter
Acting Chairman
Australian Accounting Standards Board
PO BOX 204
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Email: standard@aasb.gov.au

Dear Bruce

ED 176 Proposed Amendments to Australian Accounting Standards – Borrowing Costs of Not-for-Profit Public Sector Entities

CPA Australia, the Institute of Chartered Accountants in Australia and the National Institute of Accountants (the Joint Accounting Bodies) are pleased to respond to the Exposure Draft ED 176 Proposed Amendments to Australian Accounting Standards – Borrowing Costs of Not-for-Profit Public Sector Entities.

The Joint Accounting Bodies represent over 180,000 professional accountants. Our members work in diverse roles across public practice, commerce, industry and academia throughout Australia and internationally.

The Joint Accounting Bodies support the principle adopted in the [proposed] amending Standard to immediately expense borrowing costs, except in certain specific circumstances, as best able to provide information that is both relevant and able to accommodate the fungible nature of cash (which makes it difficult to distinguish what funds are borrowed for what purpose). Accordingly, we would like to see the application of the [proposed] amending Standard extended, so that all not-for-profit entities can choose whether to expense or capitalise borrowing costs that are directly attributable to the acquisition, construction or production of qualifying asset.[1]

If you require further information on any of our views, please contact Mark Shying, CPA Australia via email mark.shying@cpaaustralia.com.au, Kerry Hicks, the Institute via email kerry.hicks@charteredacccountants.com.au or Tom Ravlic by email tom.ravlic@nia.org.au.

Yours sincerely

Geoff Rankin
Chief Executive Officer
CPA Australia Ltd

Graham Meyer
Chief Executive Officer
Institute of Chartered Accountants

Michael Carmody
Chief Executive Officer
National Institute of Accountants

cc: M Shying / K Hicks / T Ravlic

[1] The Joint Accounting Bodies agree that in respect of not-for-profit public sector entities, that choice would be subject to the requirement of AASB 1049 Whole of Government and General Government Sector Financial Reporting.

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8 April 2009

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West Vic 8007

Dear Chairman

ED 176: *Proposed Amendments to Australian Accounting Standards - Borrowing Costs for Not-For-Profit Public Sector Entities*

Ernst & Young (E&Y) is pleased to submit its comments on ED 176: *Proposed Amendments to Australian Accounting Standards - Borrowing Costs for Not-For-Profit Public Sector Entities*.

E&Y supports the objective of the AASB to continue to issue transaction-neutral Standards, that is, Standards applicable to both for-profit and not-for-profit entities, including public sector entities. However, the proposed amendments deviate from this objective.

E&Y believes that the AASB should only introduce non-transaction neutral requirements in accounting standards where such changes are supported by the particular circumstances of the not-for-profit sector and result in improved quality of financial reporting. The arguments put forward in the ED 176 do not support this premise as the arguments are based mainly on the approach adopted by the New Zealand Financial Reporting Standards Board (FRSB) and the proposed International Public Sector Accounting Standards Board (IPSASB) Exposure Draft 35 *Borrowing Costs (Revised 200X)*. These arguments do not support that there is a compelling sector-specific reason to propose different accounting treatment for borrowing costs in the not-for-profit public sector nor that the proposed amendment will result in financial reporting that is more relevant to users.

E&Y do however acknowledge that the requirement to capitalise borrowing costs could potentially be costly for not-for-profit public sector entities (NFPPSEs) especially due to the existence of general borrowings and the requirement of AASB 123 *Borrowing Costs (Revised)* to capitalise interest on general borrowings. To alleviate this concern, the Board should consider allowing not-for-profit public sector entities to capitalise borrowing costs incurred on acquisition, construction or production of qualifying assets arising only on specific borrowings. This is similar to the approach in IPSASB Exposure Draft 35.

Therefore, E&Y do not support the proposals in the Exposure Draft for not-for-profit public sector entities, nor do we support the extension of the option to expense or capitalise all borrowing costs to not-for-profit private sector entities.

Our comments on the specific matters outlined in the Exposure Draft are addressed in Appendix A. We would be pleased to discuss our comments further with you. Please contact Charles Feeney on (02) 9248 4665 or Georgina Dellaportas on (03) 9288 8621 if you wish to discuss any of the matters raised in this response.

Yours sincerely

Ernst & Young

Ernst & Young

ERNST & YOUNG

Appendix A

SPECIFIC MATTERS FOR COMMENT

AASB questions

1. *Is reintroducing the option for not-for-profit public sector entities to expense borrowing costs appropriate?*

We do not believe that reintroducing the option for not-for-profit public sector entities (NFPPSEs) to expense borrowing costs is appropriate. Accounting standards should remain transaction neutral between sectors. Identical transactions should not be accounted for differently simply because one entity is a NFPPSE. Under the proposal, identical qualifying assets whose construction has been financed by debt will therefore have a different cost simply because one entity is a NFPPSE and the other is not.

The arguments given in BC 6 of the amendment are not sufficient justification for introducing standards that are not transaction neutral. In making amendments to standards, the AASB should provide an explanation as to why the proposed amendment will result in financial information that is reliable and more relevant to users - rather than for reasons of convergence with New Zealand or the standards of the IPSASB, as explained in BC 6.

The main argument against the requirement to capitalise borrowing costs by NFPPSEs is that the cost of capitalising borrowing costs would outweigh the benefits to users that would arise from this accounting treatment or the enhanced comparability with entities outside NFPPSEs. ED 35 *IPSAS 5 Borrowing Costs (Revised 200X)* issued by the IPSASB explains this argument as follows:

Borrowings in the public sector are often centralised and the borrowing requirements are determined for the economic entity as a whole. The borrowings may be for investing, financing or operating activities. Also, NFPPSEs may borrow for public policy purposes. Therefore, there would often be little linkage between these types of borrowings and the acquisition, construction or production of qualifying assets. As a result, any accounting system to track directly attributable borrowing costs and their application to qualifying assets is likely to be complex and resource intensive. As a result, the costs incurred in capitalising borrowing costs would likely exceed the related benefits.

For this reason, ED 35 allows an entity the option to capitalise borrowing costs from specific borrowings only. Therefore, in our view, excluding general borrowing costs from the scope of eligible borrowing costs requiring capitalisation would be a more principled solution that the AASB could use to overcome the main concern of NFPPSEs over cost.

Though this does not result in transaction neutral accounting standards, we believe that this would result in financial statements that are more relevant than the proposals in the Exposure Draft.

2. *Should the option also be reintroduced for not-for-profit private sector entities?*

As discussed above, we do not believe that the AASB should issue amendments that result in accounting standards that are not transaction neutral between sectors, unless there are circumstances that render particular requirements misleading or meaningless for a sector or the costs far outweigh the benefits for that sector. Unlike NFPPSEs, where we agree that there are significant costs and practical problems associated with capitalising costs in relation to general borrowings, we do not believe the costs are as significant for not-for-profit entities in the private sector and therefore would not support reintroduction of the option of expensing or capitalisation.

3. *Overall, would the proposals result in financial statements that would be useful to users?*

Finanancial statements are useful to users if they are (among other things) comparable. The Basis of Conclusions of IAS 23 (BC13) noted that requiring entities to capitalise borrowing costs will result in higher comparability and improvements in financial reporting, whereas recognising borrowing costs relating to qualifying assets immediately as an expense does not give a faithful representation of the cost of the asset (BC9).

Therefore, allowing the option to expense or capitalise borrowing costs would not necessarily result in financial statements that would be useful to users.

4. *Are the proposals in the best interests of the Australian economy?*

Given Australia's transaction neutral approach and the fact that the AASB proposals are dissimilar to the AASB 123 and IAS 23 requirements applicable to for-profit entities, we believe that the AASB proposals are not in the best interests of the Australian economy.